



# Company Report

## Ping An (2318 HK) – Sell Life & Health Insurance Industry

### Key data

H-share price (HK\$)	58.75
Target price (HK\$)	58.01
Upside potential (%)	(1.8)
52Wk H/L(HK\$)	68.6 / 46.8
Issued shares:	
H-shares (mn)	3,130
A-shares (mn)	4,786
H-share mkt cap (HK\$m)	401,836
30-day avg vol (HK\$m)	672.3
Major shareholders (%):	
HSBC	15.6
Shenzhen Investments	6.1

Source: Company & Bloomberg

### Segmental profit composition in 2011 (%)

Life	44.2
P&C	22.0
Banking	35.3
Securities & Others	(1.5)

\*Based on 2011 results

Source: Company

### Share performance (%)

	Absolute	Relative*
1-mth	(3.4)	(5.6)
3-mth	4.1	(6.4)
6-mth	0.9	(7.8)

\*Relative to MSCI China

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

### Analyst

Report Date: 27 November 2012

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### An underperformer facing multiple headwinds

**Ping An underperformed its peers and HSI by 6-7ppts since early Sep. In fact, the company is facing multiple headwinds. The investors are still haunted by a possible public placement of HSBC's stake sooner or later. Ping An Bank demonstrated a sluggish trend in NPL, NIM and CAR. Lastly, Ping An reported poor investment return in 3Q12. As such, we see little chance of its turnaround in near term.**

**Overhang from HSBC placement.** On 19 Nov, HSBC confirmed its intention to offload its 15.6% stake in Ping An. China Investment Corp. (CIC) & Chia Tai Group of Thailand have been rumored as the potential buyers. However, the market is concerned with a possible public placement by HSBC. Per our analysis, such stake is equivalent 67.8%, or 108.3 days of the current H-share turnover. Therefore, Ping An faces immense selling pressure, in view of a possible increase in free float.

**Further disappointment from Ping An Bank.** The Bank reported better profits YoY in 9M12, only due to the consolidation effect with Shenzhen Development Bank. In fact, several indicators were devastating. NPL ratio jumped to 80bps (from 53bps in 2011), compared to 70bps of Joint Stock Banks' average. NIM declined by 18bps to 2.38% from 2011. This is compared to an industry average of 2.77% in 3Q12. CAR dropped 21bps to 11.3% in the same quarter.

**Underperformance since early Sep.** Facing multiple headwinds, Ping An underperformed its peers by 6.4% and Hang Seng Index by 7.2% since early Sep. We see little chance of its turnaround in near term

**Maintain SELL; downgrade earnings & TP.** Based on Ping An's poor investment performance in 3Q12, we cut our 2012E earnings forecast to Rmb22.6 bn (Rmb25.6bn previously). We derive an appraisal value of Rmb367.4 bn (Rmb367.6 bn previously) for 2013E, also adopting it as TP, or HK\$58.01/ share (HK\$58.04 previously). The implied valuation of our TP is 1.13x 2013E PEV and 1.6x 2013E VNB. This represents 1.3% downside potential from the current share price. As such, we maintain our SELL recommendation on Ping An.

**Risk factors:** better-than-expected underwriting and investment performance, tighter-than-expected regulations

### Results and valuation

FY ended Dec 31	2010	2011	2012E	2013E	2014E
Revenue (Rmb mn)	194,349	250,744	295,899	331,158	357,963
Chg (YoY)	31.5	29.0	18.0	11.9	8.1
Net profit (Rmb mn)	17,311	19,475	22,624	28,504	30,338
Chg (YoY)	24.7	12.5	16.2	26.0	6.4
EPS (HK\$)	2.70	3.00	3.52	4.50	5.06
PER (x)	21.9	19.7	16.8	13.1	11.7
BPS (HK\$)	18.2	26.4	30.9	35.3	41.6
P/B (x)	3.2	2.2	1.9	1.7	1.4
EVPS (HK\$)	31.3	36.2	44.6	51.1	60.6
PEV (x)	1.9	1.6	1.3	1.2	1.0
VNB (HK\$)	2.4	2.7	2.5	2.5	2.7
VNB (x)	11.5	8.6	5.9	3.2	(0.6)

Source: Company data, ABCI Securities estimates

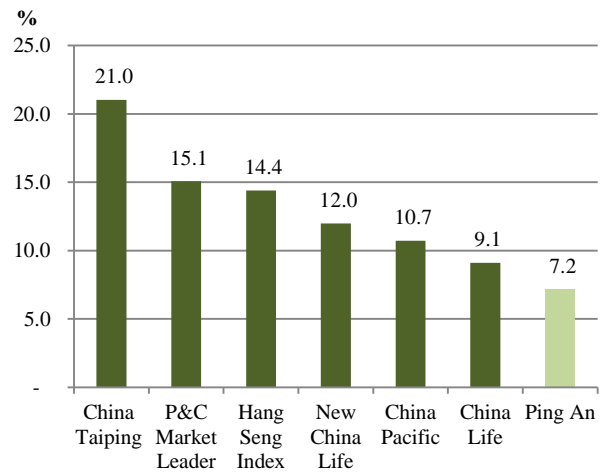


**Ping An: current top 5 shareholders in H-share market**

H-shareholders	(mn shares)	% of Current Free Float	Days of Turnover	% of Total Ping An	% of H Total Ping An
HSBC	1,234	67.8%	108.3	15.6%	39.4%
JPMorgan	243	13.4%	21.3	3.1%	7.8%
Vanguard	79	4.4%	7.0	1.0%	2.5%
Jinjun	76	4.2%	6.7	1.0%	2.4%
Capital	62	3.4%	5.4	0.8%	2.0%

Source: Company data, ABCI Securities

**Ping An: performance against peers & HSI since 5 Sep**



Source: Company data, Bloomberg, ABCI Securities

**Ping An: 3Q12/ 9M12 profit & loss**

(RMB mn)	3Q12 CAS	3Q11 CAS	% YoY Chg	9M12 CAS	9M11 CAS	% YoY Chg		3Q12	3Q11
GWP & Policy fees	52,093	43,879	19%	179,905	159,959	12%			
(-) Premiums to Reinsurers	(3,014)	(2,492)	21%	(10,187)	(8,349)	22%			
NWP & Policy fees	49,079	41,387	19%	169,718	151,610	12%			
Chg. in Unearned Premium Res.	(1,862)	(1,760)	6%	(6,930)	(8,584)	-19%			
<b>NEP &amp; policy fees</b>	<b>47,217</b>	<b>39,627</b>	<b>19%</b>	<b>162,788</b>	<b>143,026</b>	<b>14%</b>	% of Ttl. Inc.	61.6%	61.9%
Reins. Comm.	1,019	838	22%	3,448	2,460	40%	% of Ttl. Inc.	1.3%	1.3%
Int. Inc. (Bank)	19,020	15,573	22%	56,391	21,904	157%	% of Ttl. Inc.	24.8%	24.3%
Fees & Comm. Inc. (Non Insurance)	2,613	2,711	-4%	7,640	6,173	24%	% of Ttl. Inc.	3.4%	4.2%
Investment Income	4,248	3,872	10%	19,208	19,784	-3%	% of Ttl. Inc.	5.5%	6.0%
Associate / JV Profit / Loss	14	34	-59%	(4)	1,193	-100%	% of Ttl. Inc.	0.0%	0.1%
Other Income	2,472	1,384	79%	6,135	3,309	85%	% of Ttl. Inc.	3.2%	2.2%
<b>Total Income</b>	<b>76,603</b>	<b>64,039</b>	<b>20%</b>	<b>255,606</b>	<b>197,849</b>	<b>29%</b>			
Claims & PH Benefits	(37,224)	(30,042)	24%	(127,676)	(113,414)	13%	% of NEP	-78.8%	-75.8%
Ins. Comm. Exp.	(4,459)	(3,807)	17%	(15,600)	(13,195)	18%	% of NEP	-9.4%	-9.6%
Int. Exp. (Bank)	(10,224)	(7,934)	29%	(30,729)	(10,717)	187%	% Int. Inc.	-53.8%	-50.9%
Fees & Comm. Exp. (Non Insurance)	(340)	(351)	-3%	(945)	(719)	31%	% of Fee Inc.	-13.0%	-12.9%
Loan Loss Provision	(614)	(492)	25%	(2,150)	(753)	186%	% Bank Rev.	-5.5%	-4.9%
Forex Loss	16	(308)	NA	252	(457)	NA			
G&A Exp.	(16,861)	(14,514)	16%	(47,300)	(33,674)	40%	% of Ttl. Inc.	-22.0%	-22.7%
Finance Costs	(605)	(241)	151%	(1,504)	(689)	118%			
Other Expenses	(1,592)	(1,041)	53%	(4,733)	(2,656)	78%			
<b>Total Expenses</b>	<b>(71,903)</b>	<b>(58,730)</b>	<b>22%</b>	<b>(230,385)</b>	<b>(176,274)</b>	<b>31%</b>	% of Ttl. Inc.	-93.9%	-91.7%
<b>Profit before Tax</b>	<b>4,700</b>	<b>5,309</b>	<b>-11%</b>	<b>25,221</b>	<b>21,575</b>	<b>17%</b>			
Income Tax	(794)	(2,021)	-61%	(3,788)	(5,289)	-28%			
<b>Profit after Tax</b>	<b>3,906</b>	<b>3,288</b>	<b>19%</b>	<b>21,433</b>	<b>16,286</b>	<b>32%</b>			
Minority Interest	(1,780)	(1,526)	17%	(5,348)	(1,767)	203%			
<b>Profits to Ping An Shareholders</b>	<b>2,126</b>	<b>1,762</b>	<b>21%</b>	<b>16,085</b>	<b>14,519</b>	<b>11%</b>			
<b>Other Comprehensive Income</b>									
<b>AFS Financial Assets</b>	<b>(1,595)</b>	<b>(16,867)</b>	<b>-91%</b>	<b>6,723</b>	<b>(22,869)</b>	<b>-129%</b>	% of Net Profit	-40.8%	-513.0%
Shadow accounting adjustments	(1,115)	(1,925)	-42%	(3,513)	(599)	486%			
Exch. Diff.	(2)	25	-108%	109	76	43%			
Share of other comp income (associates)		65	NA	3	23	NA			
Income tax relating to Comp. Income	663	4,665	-86%	(788)	5,787	-114%			
Other comprehensive Income after tax	(2,049)	(14,037)	-85%	2,534	(17,582)	-114%			
<b>Total Comprehensive Income</b>	<b>1,857</b>	<b>(10,749)</b>	<b>-117%</b>	<b>23,967</b>	<b>(1,296)</b>	<b>-1949%</b>	% of Net Profit	47.5%	-326.9%
Minority Interest	(1,234)	(1,266)	-3%	(5,016)	(1,491)	236%			
<b>Comprehensive Income to PA SH</b>	<b>623</b>	<b>(12,015)</b>	<b>-105%</b>	<b>18,951</b>	<b>(2,787)</b>	<b>-780%</b>			

Source: Company, ABCI Securities



**Ping An: 9M12 investment asset mix & balance sheet**

(Rmb mn)	9M12	2011	% 9M Chg	(Rmb mn)	9M12	2011	% 9M Chg
Cash & Amts due from FIs	354,526	261,006	35.8%	Total Assets	2,630,601	2,285,424	15.1%
Fixed Maturity Inv't (Bonds & Dep.)	952,550	772,353	23.3%	Total liabilities	2,436,331	2,114,082	15.2%
Equity Investments	132,445	116,985	13.2%	Shareholders' Equity	194,270	171,342	13.4%
Investment properties	11,482	9,076	26.5%	Equity to owners	146,198	130,867	11.7%
<b>Total Investments</b>	<b>1,451,003</b>	<b>1,159,420</b>	<b>25.1%</b>				
<b>Ins. Ttl Investments</b>	<b>1,085,419</b>	<b>867,301</b>	<b>25.1%</b>				
<b>Total Assets</b>	<b>2,630,601</b>	<b>2,285,424</b>	<b>15.1%</b>				
<b>Gross Inv't Yield</b>	<b>2.6%</b>	<b>4.0%</b>	<b>-1.4%</b>				

Source: Company, ABCI Securities

**Ping An: banking operating data**

(Rmb mn)	9M12	9M11	% YoY Chg	(Rmb mn)	9M12	2011	% 9M Chg
Net interest income	24,560	17,681	39%	Total loans	705,084	620,642	14%
Net fee & commissions	4,155	2,430	71%	Corporate loans + bills	495,608	430,702	15%
Other operating income	816	591	38%	Retail loans	171,154	165,226	4%
Total operating income	29,531	20,702	43%	LDR (%)	75.49%	70.80%	4.69%
Operating expenses	11,387	7,958	43%	NPL (%)	0.80%	0.53%	0.27%
Credit Costs	2,215	1,240	79%	Provision coverage (%)	209.40%	320.66%	-111.26%
Non operating income / loss	2,517	1,580	59%	CAR (%)	11.30%	11.51%	-0.21%
Profit before tax	13,412	9,924	35%	Core CAR (%)	8.47%	8.46%	0.01%
Tax expense	3,066	2,179	41%	Cost Income Ratio	38.56%	39.99%	-1.43%
Net profits	10,346	7,745	34%				
Profits attributable to Ping An	5,412	4,051	34%				
Net interest margin (%)	2.38%	2.56%	-0.18%				

Source: Company, ABCI Securities



**Ping An: Embedded Value**

(Rmb mn)	2009	2010	2011	2012E	2013E	1H12
<b>Group embedded value</b>						
Life insurance EV	100,703	121,086	144,400	174,406	201,381	156,198
Life insurance NBV	49,620	19,695	5,154	23,061	24,295	
Life insurance AV	150,323	140,781	149,554	197,467	225,677	
<b>Valuation of non-life businesses</b>						
P&C insurance	10,581	61,975	73,663	44,379	40,267	
Banking	35,195	51,251	64,517	52,710	55,073	
Financial services	22,284	32,003	11,202	12,077	13,559	
Corporate office and unallocated	2,043	5,145	35,023	33,812	32,829	
Book value of other businesses	54,554	79,900	91,227	112,336	122,372	102,807
Group EV	155,257	200,986	235,627	286,743	323,753	259,005
Group AV	220,426	291,154	333,958	340,446	367,405	
<b>Life embedded value</b>						
Adjusted net worth	40,052	43,673	48,219	64,489	87,210	50,019
Value of in-force	74,965	94,958	117,550	132,183	137,372	129,726
Cost of solvency margin	-14,314	-17,545	-21,369	-22,266	-23,200	-23,547
Embedded value	100,703	121,086	144,400	174,406	201,381	156,198
Vnb (long term)	11,805	15,507	17,343	15,778	15,671	9,160
Multiplier	4	1	0	1	2	
New business value (long term)	49,620	19,695	5,154	23,061	24,295	
Appraisal value	150,323	140,781	149,554	197,467	225,677	
<b>EV movement analysis</b>						
Opening embedded value	69,643	100,703	121,086	144,400	174,406	
Expected return						
- SHF's	1,419	2,203	2,402	2,652	3,547	
- In-force	6,107	7,620	9,846	12,931	14,540	
Value of new business (VNB)	11,805	15,507	17,343	15,778	15,671	
Inv't r var + mkt val adj	8,393	(1,327)	(12,268)	5,000	(1,000)	
Capital raising & dividends	748	(1,967)	7,968	(4,354)	(3,483)	
OpEx var, model chg & others	2,588	(1,653)	(1,977)	(2,000)	(2,300)	
Closing embedded value	100,703	121,086	144,400	174,406	201,381	
EVPS (HK\$)	15.56	18.88	22.21	27.10	31.80	
Group EVPS (HK\$)	23.05	31.34	36.24	44.55	51.12	
AVPS (HK\$)	32.73	45.39	51.36	52.90	58.01	
PEV implied	1.42	1.45	1.42	1.19	1.13	
VNB (HK\$)	1.82	2.42	2.67	2.45	2.47	
VNB implied (x)	5.30	5.81	5.67	1.46	1.55	
<b>EV contributions 1 (%)</b>						
Expected return on beg EV	11%	10%	10%	11%	10%	
IRV + MVA contribution to beg EV	12%	-1%	-10%	3%	-1%	
VNB contribution to beg EV	17%	15%	14%	11%	9%	
VNB contribution to beg VIF	21%	21%	18%	13%	12%	
EVPS (HK\$) growth	45%	21%	18%	22%	17%	
<b>EV contributions 2 (%)</b>						
Beginning EV	69%	83%	84%	83%	87%	
Expected return						
- SHF's	1%	2%	2%	2%	2%	
- In-force	6%	6%	7%	7%	7%	
Inv't r var + mkt val adj	8%	-1%	-8%	3%	0%	
Value of new business (VNB)	12%	13%	12%	9%	8%	
Capital raising & dividends	1%	-2%	6%	-2%	-2%	
OpEx var, model chg & others	3%	-1%	-1%	-1%	-1%	
Ending EV	100%	100%	100%	100%	100%	

Source: Company data, ABCI Securities estimates



**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Ping An

**Ping An: Financial Statements**

Profit & loss (Rmb mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
<b>GWP &amp; policy fees</b>	<b>159,384</b>	<b>207,802</b>	<b>227,420</b>	<b>247,310</b>	<b>269,614</b>	Gross written premium growth	42.0%	30.4%	9.4%	8.7%	9.0%
(-) Premiums to reinsurers	(8,181)	(10,970)	(14,806)	(17,598)	(20,163)	Net earned premium growth	40.6%	32.3%	12.3%	6.7%	8.4%
<b>NWP &amp; policy fees</b>	<b>151,203</b>	<b>196,832</b>	<b>212,614</b>	<b>229,712</b>	<b>249,451</b>	Claims/benefits - of NEP	38.6%	41.3%	43.4%	40.9%	41.6%
Chg. in unearned premium res.	(10,079)	(10,170)	(2,927)	(6,068)	(6,993)	Div to PH & net inc. in PH res. of NEP	42.9%	36.8%	34.7%	37.0%	35.5%
<b>NEP &amp; policy fees</b>	<b>141,124</b>	<b>186,662</b>	<b>209,688</b>	<b>223,644</b>	<b>242,458</b>	<b>Ttl. claim/PH benefits to NEP</b>	<b>81.5%</b>	<b>78.1%</b>	<b>78.1%</b>	<b>77.9%</b>	<b>77.1%</b>
Investment income	31,083	29,265	29,105	45,368	47,393	Claims/benefits - of total revenue	28.0%	30.7%	30.8%	27.6%	28.2%
Net interest income of bk. op.	9,331	18,882	33,966	36,725	40,397	Net inc. in PH res. - of total revenue	31.2%	27.4%	24.6%	25.0%	24.0%
Fee & comm. inc.	8,159	12,270	15,631	17,652	19,557	<b>Ttl. claim/PH benefits to total revenue</b>	<b>59.2%</b>	<b>58.1%</b>	<b>55.4%</b>	<b>52.6%</b>	<b>52.2%</b>
Other income	4,652	3,665	7,509	7,769	8,158	Commission cost ratio	7.5%	7.1%	7.2%	8.6%	8.7%
<b>Total revenue</b>	<b>194,349</b>	<b>250,744</b>	<b>295,899</b>	<b>331,158</b>	<b>357,963</b>	General & admin. cost ratio	22.6%	23.2%	25.6%	25.3%	25.8%
Claims, surrenders, annuities/maturities	(54,503)	(77,061)	(91,005)	(91,465)	(100,875)	<b>Operating expense ratio</b>	<b>30.0%</b>	<b>25.5%</b>	<b>35.8%</b>	<b>36.1%</b>	<b>32.8%</b>
Div. & int. to PH & net inc. in PH res.	(60,574)	(68,703)	(72,829)	(82,745)	(86,055)	<b>Cost to income ratio</b>	<b>89.3%</b>	<b>88.5%</b>	<b>88.2%</b>	<b>86.6%</b>	<b>86.7%</b>
<b>Ttl. claims/PH benefits</b>	<b>(115,077)</b>	<b>(145,764)</b>	<b>(163,834)</b>	<b>(174,210)</b>	<b>(186,930)</b>	<b>Gross investment yield</b>	<b>4.6%</b>	<b>3.6%</b>	<b>3.0%</b>	<b>4.0%</b>	<b>3.9%</b>
Commission expenses	(14,545)	(17,767)	(21,368)	(28,620)	(31,047)	<b>Group solvency</b>	<b>197.9%</b>	<b>166.7%</b>	<b>160.0%</b>	<b>161.1%</b>	<b>151.9%</b>
General & administrative expense	(34,385)	(50,575)	(66,513)	(76,436)	(84,029)	<b>Ping An life solvency</b>	<b>180.2%</b>	<b>156.1%</b>	<b>185.5%</b>	<b>203.8%</b>	<b>186.8%</b>
Loan loss provisions	(626)	(1,704)	(3,229)	(3,555)	(3,911)	<b>Ping An P&amp;C solvency</b>	<b>179.6%</b>	<b>166.1%</b>	<b>143.3%</b>	<b>145.7%</b>	<b>141.0%</b>
Other expense	(8,834)	(5,976)	(5,972)	(3,944)	(4,400)						
<b>Total expenses</b>	<b>(58,390)</b>	<b>(76,022)</b>	<b>(97,082)</b>	<b>(112,556)</b>	<b>(123,386)</b>						
<b>Net profit before tax</b>	<b>20,882</b>	<b>28,958</b>	<b>34,983</b>	<b>44,393</b>	<b>47,647</b>	<b>Balance sheet (Rmb mn)</b>					
Associate/JV - Profits/losses	1,465	1,068	(2)	31	31		<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Tax expense	(4,409)	(7,444)	(5,109)	(7,925)	(8,514)	Cash	203,315	261,006	425,648	469,277	517,378
<b>Net profit after tax</b>	<b>17,938</b>	<b>22,582</b>	<b>29,872</b>	<b>36,499</b>	<b>39,164</b>	Investments	648,893	899,232	1,085,742	1,157,865	1,275,917
Minority interest	(627)	(3,107)	(7,248)	(7,995)	(8,826)	Receivables	6,414	182,816	144,938	159,794	176,173
<b>NP to Ping An shareholders</b>	<b>17,311</b>	<b>19,475</b>	<b>22,624</b>	<b>28,504</b>	<b>30,338</b>	Deferred acquisition costs	0	0	0	0	0
						Fixed assets	8,170	16,027	16,956	16,956	16,956
<b>Financial summary</b>						Policy loans, PH assets & inv. receivables	304,835	926,343	1,066,710	1,189,267	1,331,951
	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>Total assets</b>	<b>1,171,627</b>	<b>2,285,424</b>	<b>2,739,994</b>	<b>2,993,159</b>	<b>3,318,374</b>
<b>EPS (HK\$)</b>	<b>2.70</b>	<b>3.00</b>	<b>3.52</b>	<b>4.50</b>	<b>5.06</b>	Deposits	175,963	836,049	946,002	1,072,956	1,216,946
<i>EPS growth (%)</i>	19.8%	11.0%	17.4%	28.0%	12.4%	Borrowings	146,672	295,429	498,663	534,168	572,201
<b>PER (x)</b>	<b>21.9</b>	<b>19.7</b>	<b>16.8</b>	<b>13.1</b>	<b>11.7</b>	Payables	35,548	120,962	82,741	91,222	100,572
<b>PBV (x)</b>	<b>3.24</b>	<b>2.24</b>	<b>1.91</b>	<b>1.67</b>	<b>1.42</b>	Policyholder liabilities	669,938	791,215	921,686	1,009,660	1,101,727
<b>PEV (x)</b>	<b>1.88</b>	<b>1.63</b>	<b>1.33</b>	<b>1.16</b>	<b>0.97</b>	Other	26,623	70,427	91,722	61,825	77,614
<b>VNB multiple (x)</b>	<b>11.5</b>	<b>8.6</b>	<b>5.9</b>	<b>3.2</b>	<b>-0.6</b>	<b>Total liabilities</b>	<b>1,054,744</b>	<b>2,114,082</b>	<b>2,540,814</b>	<b>2,769,830</b>	<b>3,069,060</b>
<b>Dividend per share (HK\$)</b>	<b>0.55</b>	<b>0.49</b>	<b>0.68</b>	<b>0.69</b>	<b>0.73</b>	<b>Net assets</b>	<b>116,883</b>	<b>171,342</b>	<b>199,179</b>	<b>223,329</b>	<b>249,314</b>
Yield (%)	1.1%	0.8%	1.1%	1.2%	1.2%	Minority interests	4,853	40,475	50,599	58,594	67,420
Payout ratio (%)	24.0%	16.1%	19.2%	15.3%	14.4%	<b>Net equity to shareholders</b>	<b>112,030</b>	<b>130,867</b>	<b>148,580</b>	<b>164,735</b>	<b>181,893</b>
<b>Return on equity (%)</b>	<b>16.6%</b>	<b>13.5%</b>	<b>12.2%</b>	<b>13.5%</b>	<b>12.8%</b>						
Return on assets (%)	1.8%	1.2%	1.0%	1.1%	1.0%						
Tax rate (%)	21.1%	25.7%	14.6%	17.9%	17.9%						

Source: Company data, ABCI Securities estimates



## Disclosures

### Analyst Certification

I, Chan Wing Fu (Francis Chan), being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index.

Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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